

# OPEN MEETING



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ORIGINAL

## MEMORANDUM

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Arizona Corporation Commission

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TO: THE COMMISSION

DEC - 5 2006

AZ CORP COMMISSION  
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FROM: Utilities Division

DOCKETED BY	<i>[Signature]</i>
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DATE: December 5, 2006

RE: IN THE MATTER OF LAS QUINTAS SERENAS WATER COMPANY'S COMPLIANCE FILING AND REQUEST FOR APPROVAL OF PROPOSED SURCHARGE (DOCKET NOS. W-01583A-04-0178, W-01583A-05-0326 AND W-01583A-05-0340)

### Introduction

On November 7, 2006, pursuant to Decision No. 68718, Las Quintas Serenas Water Company ("Las Quintas" or "Company") filed a request with the Arizona Corporation Commission ("Commission") for approval of an arsenic removal surcharge as shown on Table A. Las Quintas is a certificated Class C utility that provides water service to approximately 900 customers in a portion of southern Pima County, Arizona.

### Background

On January 23, 2001, the United States Environmental Protection Agency reduced the drinking water standard for arsenic from 50 parts per billion ("ppb") to 10 ppb. All community water systems and non-transient non-community water systems needed to comply with the new federal rule by January 23, 2006.

On June 1, 2006, in Decision No. 68718, Las Quintas was authorized financing approval and an arsenic remedial surcharge mechanism ("ARSM").<sup>1</sup> Decision No. 68718 directed the Company to make an arsenic surcharge recovery filing within 15 days of the loan closing. Implementation of the ARSM would enable the Company to meet its principal and interest obligations on the actual amount of the loan and pay income taxes on the surcharges.

### Staff Adjustments

Decision No. 68718 stated that,

<sup>1</sup> The Decision uses the term "arsenic recovery mechanism" or "ACRM" instead of "arsenic remedial surcharge mechanism" or "ARSM." This memorandum uses the latter term hereafter.

THE COMMISSION

December 5, 2006

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“ . . . LQS be required to calculate its proposed surcharge tariff using . . . the same methodology that Staff used to determine the estimated surcharge amount . . .” (emphasis added).

Staff's methodology allowed only the principal and interest on the authorized loan amount and the related income taxes to be recovered through the ARSM. In addition to those authorized costs, the Company's proposed surcharge includes \$38,983 for an annual Water Infrastructure Finance Authority Debt Reserve payment and the incremental income taxes thereon. Since a provision for these additional items was not authorized in Decision No. 68718, Staff removed the \$38,983 from the surcharge revenue requirement used to calculate the arsenic remedial surcharge.

Staff also determined that the Company improperly calculated the gross revenue conversion factor used in the ARSM. The Company's calculation does not include a gross-up for income taxes on the surcharge revenues to cover principal on the arsenic loan. This omission understates the Company's gross revenue conversion factor, and consequently, the surcharge revenue requirement. Staff corrected this error by using the 1.4120 gross revenue conversion factor reflected in Staff's ARSM testimony that was the basis of the ARSM adopted by the Commission.

Staff recommends approval of Staff's recommended arsenic surcharges as shown on Table A.

Staff further recommends that the Company file a tariff consistent with Table A explaining the terms and conditions of the arsenic remedial surcharge within 30 days of the effective date of the decision resulting from this proceeding.

Staff further recommends that Las Quintas notify its customers of the Arsenic Remedial Surcharge tariff within 30 days of the effective date of the decision resulting from this proceeding.



Ernest G. Johnson  
Director  
Utilities Division

EGJ:CSB:lhmvJMA

Originator: Crystal Brown

**TABLE A**

## Arsenic Remedial Monthly Surcharge Per Meter

	<u>Company Proposed</u>	<u>Staff Recommended</u>
5/8 Inch x 3/4 Inch Meter	\$ 13.59	\$ 11.37
3/4 Inch Meter	\$ 20.39	\$ 17.05
1 Inch Meter	\$ 33.98	\$ 28.42
1 1/2 Meter	\$ 67.96	\$ 56.84
2 Inch Meter	\$108.74	\$ 90.94
3 Inch Meter	None Proposed	\$170.52
4 Inch Meter	\$339.82	\$284.20
6 Inch Meter	None Proposed	\$568.40
Standpipe	\$ 13.59	\$ 11.37

1                                   **BEFORE THE ARIZONA CORPORATION COMMISSION**

2       JEFF HATCH-MILLER  
          Chairman

3       WILLIAM A. MUNDELL  
          Commissioner

4       MIKE GLEASON  
          Commissioner

5       KRISTIN K. MAYES  
          Commissioner

6       BARRY WONG  
          Commissioner

7

8       IN THE MATTER OF THE APPLICATION )  
9       OF LAS QUINTAS SERENAS WATER )  
      COMPANY FOR A RATE INCREASE )

DOCKET NO. W-01583A-04-0178

10

11       IN THE MATTER OF THE APPLICATION )  
12       OF LAS QUINTAS SERENAS WATER )  
13       COMPANY FOR AUTHORITY TO INCUR )  
14       LONG-TERM INDEBTEDNESS TO )  
15       FINANCE WATER SYSTEM )  
      IMPROVEMENTS AND ASSURE )  
      COMPLIANCE WITH NEW ARSENIC )  
      RULES )

DOCKET NO. W-01583A-05-0326

16

17       IN THE MATTER OF THE APPLICATION  
18       OF LAS QUINTAS SERENAS WATER  
19       COMPANY FOR AN OPINION AND  
20       ORDER TO (i) RE-OPEN THE RECORD IN  
21       A RECENT RATE CASE SO AS TO  
22       CONSIDER EVIDENCE IN SUPPORT OF  
23       AN ARSENIC COST RECOVERY  
      MECHANISM, AND (ii) MODIFY RATE  
      CASE DECISION IN ORDER TO ADD AN  
      ARSENIC COST RECOVERY  
      MECHANISM AS AN AUTHORIZED RATE  
      AND CHARGE

DOCKET NO. W-01583A-05-0340

DECISION NO. \_\_\_\_\_

ORDER

**COMPLIANCE FILING AND  
REQUEST FOR APPROVAL OF  
PROPOSED SURCHARGE**

24       Open Meeting  
25       December 19 and 20, 2006  
      Phoenix, Arizona

26       BY THE COMMISSION:

27       ...

28       ...

**Introduction**

Pursuant to Decision No. 68658, dated November 7, 2006, Las Quintas Serenas Water Company ("Las Quintas" or "Company") filed a request with the Arizona Corporation Commission ("Commission") for approval of an arsenic removal surcharge. The Company proposes monthly surcharges that vary by meter size. The Company's proposed surcharges would increase the average residential customer's bill (5/8-inch x 3/4-inch meter) by approximately \$13.59 (or 58.86 percent) from \$23.20 to \$36.79. Staff recommends surcharges that conform with the Arsenic Remedial Surcharge Mechanism ("ARSM")<sup>1</sup> authorized by Decision No. 68718.<sup>2</sup> Staff's recommended surcharges would increase the average residential customer's bill by approximately \$11.37 (or 49.01 percent) from \$23.20 to \$34.57.

**Background**

On January 23, 2001, the United States Environmental Protection Agency reduced the drinking water standard for arsenic from 50 parts per billion ("ppb") to 10 ppb. All community water systems and non-transient non-community water systems needed to comply with the new federal rule by January 23, 2006.

On June 1, 2006, in Decision No. 68718, Las Quintas was authorized financing approval and an ARSM. Decision No. 68718 directed the Company to make an arsenic surcharge recovery filing within 15 days of the loan closing. Implementation of the ASRM would enable the Company to meet its principal and interest obligations on the actual amount of the loan and pay income taxes on the surcharges.

**Staff Adjustments**

Staff recommends two adjustments to the Company's ARSM calculations. Staff noted that Decision No. 68718 stated that,

...

<sup>1</sup> Decision No. 68718 uses the term "arsenic recovery mechanism" or "ACRM" instead of "arsenic remedial surcharge mechanism" or "ARSM." The latter term is in use herein.

<sup>2</sup> Dated June 1, 2006.

1 “ . . . LQS be required to calculate its proposed surcharge tariff using . . .  
2 the same methodology that Staff used to determine the estimated surcharge  
3 amount . . .” (emphasis added).

4 Staff’s methodology allowed only the principal and interest on the authorized loan amount  
5 and the related income taxes to be recovered through the ASRM. Staff noted that in addition to  
6 those authorized costs, the Company’s proposed surcharge includes \$38,983 for the annual Water  
7 Infrastructure Financing Authority (“WIFA”) Debt Reserve payment and incremental income taxes  
8 thereon. Since a provision for these additional items was not authorized in Decision No. 68718,  
9 Staff removed the \$38,983 from the surcharge revenue requirement to calculate the arsenic  
10 remedial surcharge.

11 Staff also determined that the Company improperly calculated the gross revenue  
12 conversion factor used in the ARSM. According to Staff, the Company’s calculation does not  
13 include a gross-up for income taxes on the surcharge revenues to cover principal on the arsenic  
14 loan. This omission understates the Company’s gross revenue conversion factor, and  
15 consequently, the surcharge revenue requirement. Staff corrected this error by using the 1.4120  
16 gross revenue conversion factor reflected in Staff’s ARSM testimony that was the basis of the  
17 ARSM adopted by the Commission.

18 Staff recommends approval of Staff’s recommended arsenic surcharges as shown on  
19 Table A.

20 Staff further recommends that the Company file a tariff consistent with Table A explaining  
21 the terms and conditions of the arsenic remedial surcharge within 30 days of the effective date of  
22 the decision resulting from this proceeding.

23 Staff further recommends that Las Quintas notify its customers of the Arsenic Remedial  
24 Surcharge tariff within 30 days of the effective date of the decision resulting from this proceeding.

25 We find that Staff’s adjustments and its recommendations are appropriate and should be  
26 adopted.

27 ...

28 ...

\* \* \* \* \*

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. Las Quintas is a certificated Class C utility that provides water service to approximately 900 customers in a portion of southern Pima County, Arizona.

2. The Company seeks an arsenic remedial surcharge tariff in this proceeding authorizing the monthly surcharges as shown on Table A to aid the Company in its efforts to comply with the Environmental Protection Agency's new arsenic maximum contaminant level of 10 ppb which became effective January 23, 2006.

3. Staff determined that the Company's surcharge calculation is not consistent with the authorized ARSM and recommends adjustments to calculate the surcharge as authorized.

4. Staff calculated surcharges to conform with the authorized ARSM.

CONCLUSIONS OF LAW

1. The Company is a public water service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§40-250 and 40-252.

2. The Commission has jurisdiction over the Company and of the subject matter of the application.

3. Approval of an arsenic surcharge is consistent with the Commission's authority under the Arizona Constitution, Arizona ratemaking statutes, and applicable case law.

4. It is in the public interest to approve the Company's request for approval of an arsenic remedial surcharge tariff, as calculated by Staff.

ORDER

IT IS THEREFORE ORDERED that the application by Las Quintas for approval of an arsenic remedial surcharge to service the debt necessary to complete the arsenic treatment investment as recommended by Staff and shown on Table A is approved.

...

...

1 IT IS FURTHER ORDERED that the Company shall docket a tariff consistent the arsenic  
2 remedial surcharge approved herein explaining the terms and conditions of the arsenic remedial  
3 surcharge within 30 days of the effective date of this decision.

4 IT IS FURTHER ORDERED that Las Quintas shall notify its customers in a form  
5 acceptable to Staff, of the arsenic remedial surcharge tariff approved herein within 30 days of the  
6 effective date of this Decision.

7 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

8  
9 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

10  
11 \_\_\_\_\_  
CHAIRMAN

COMMISSIONER

12  
13  
14 COMMISSIONER

COMMISSIONER

COMMISSIONER

15  
16 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive  
17 Director of the Arizona Corporation Commission, have  
18 hereunto, set my hand and caused the official seal of this  
Commission to be affixed at the Capitol, in the City of  
Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2006.

19  
20  
21 \_\_\_\_\_  
BRIAN C. McNEIL  
22 Executive Director

23  
24 DISSENT: \_\_\_\_\_

25 DISSENT: \_\_\_\_\_

26 EGJ:CSB:lhmvJMA  
27  
28

Decision No. \_\_\_\_\_



1 SERVICE LIST FOR: Las Quintas Serenas Water Company  
2 DOCKET NO. W-01583A-04-0178, et al.

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28

**TABLE A**

Arsenic Remedial Monthly Surcharge Per Meter

5/8 Inch x 3/4 Inch Meter	\$ 6.78
3/4 Inch Meter	\$ 10.17
1 Inch Meter	\$ 16.95
1 1/2 Meter	\$ 33.90
2 Inch Meter	\$ 54.24
3 Inch Meter	\$101.70
4 Inch Meter	\$169.50
6 Inch Meter	\$339.00